citistreet℠

Advanced Investing

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Agenda

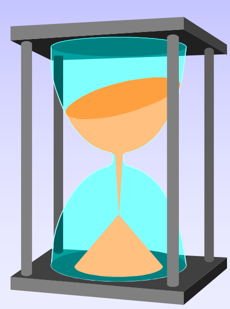
- Asset Allocation : Factors to Consider
- Personal Investment Strategy
- Investment Options Overview
- Estate Planning Terminology
- Where are your Retirement Dollars Coming From?

Asset Allocation... Factors To Consider

- Time Horizon
- Life Events
- Sensitivity To Risk
- Personal Financial Situation

Time Horizon

- How much time do you have until:
  - Retirement
  - When you need to use the money?

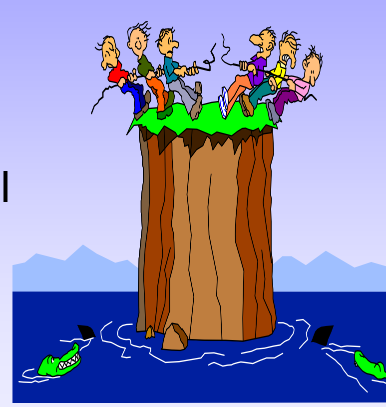


Life Events…. What will happen to you?

- College for your children
- Buying a new home
- Medical Care Expenses
- Starting a Family

Sensitivity To Risk

- Investment Risk
- Inflation Risk
- Interest Rate Risk
- Retirement Shortfall
- Credit Risk

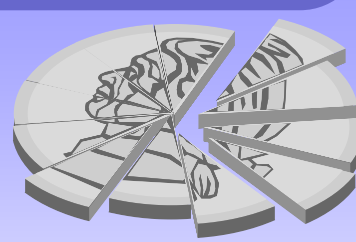


Personal Financial Situation

- Marital Status
- Income Level
- Other Investments

How Often Should You Change Your Allocation?

- Review your…
  - Time Horizon
  - Life Changing Events
  - Sensitivity To Risk
  - Personal Financial Situation



on a regular basis!

If they change your allocation may need to change.

Asset class winners and losers

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<tr><th></th><th>1990</th><th>1991</th><th>1992</th><th>1993</th><th>1994</th><th>1995</th><th>1996</th><th>1997</th><th>1998</th><th>1999</th><th>2000</th><th>2001</th><th>2002</th><th>2003</th><th>2004</th></tr>
<tr><td>Highest Return</td><td>30 day T-bills</td><td colspan="2">Small stocks</td><td colspan="2">Internat'l stocks</td><td colspan="4">Large stocks</td><td>Small stocks</td><td>LT gov't bonds</td><td>Small stocks</td><td>LT gov't bonds</td><td>Small stocks</td><td>Internat'l stocks</td></tr>
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The Dangers of Market Timing

- It is often difficult to predict short-term swings in the market.
- Market timing exposes the portfolio to more risk.
- Returns are often concentrated in short term periods.
- What has worked in the past often does not carry into the future.

Dollar Cost Averaging

Month	Amount Invested	Price Per Share	No. of Shares
January	$600	$20	30
February	$600	$24	25
March	$600	$30	20
April	$600	$40	15
Total	**$2,400**	**$114**	**90**

*This is for illustrative purposes only and not indicative of any investment.

Dollar Cost Averaging, Continued

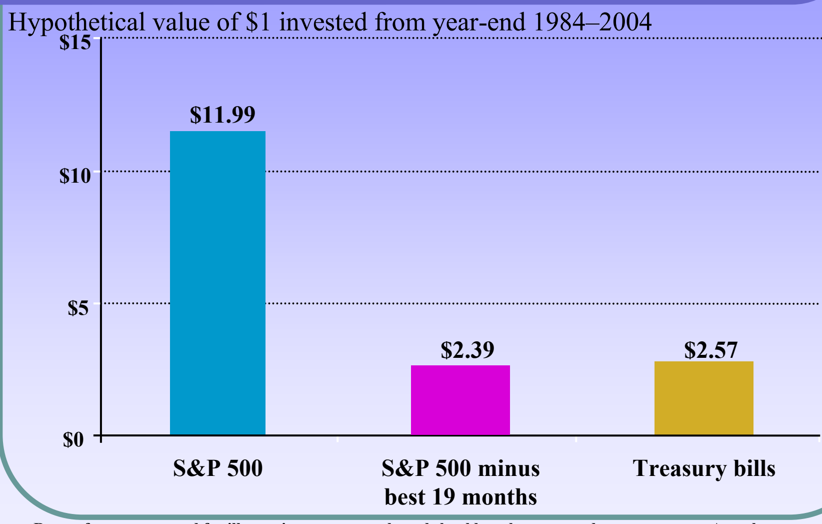
Average Cost Per Share: **$26.67**

$2,400 (total investment)
90 (total number of shares purchased)

Average Price Per Share: **$28.50**

$114 (price per share)
4 (number of investment periods)

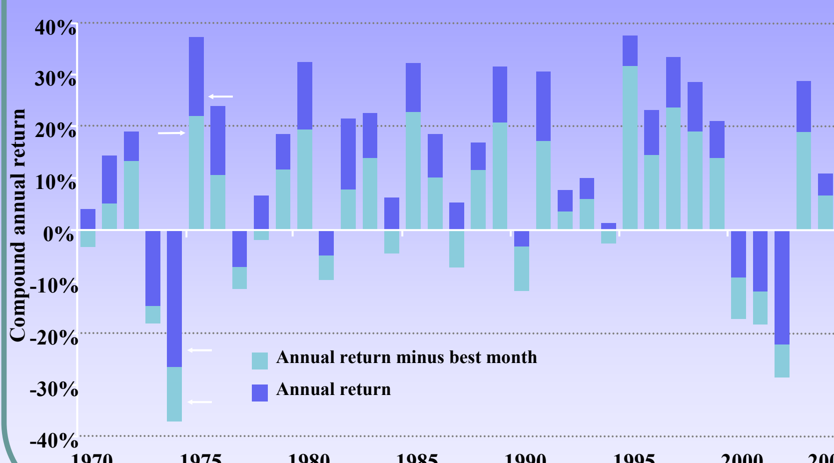
Dangers of market timing



Rates of return are used for illustrative purposes only and should not be construed as a guarantee. Actual account values and earnings may decrease or increase depending on a number of factors. Please read all fund materials prior to investing and consult with your investment advisor.

Market timing risk

(The effects of missing the best month on annual returns)



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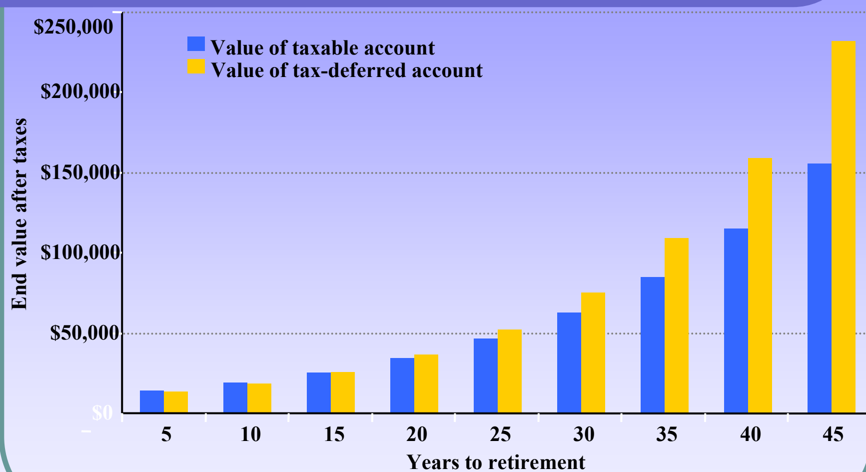
Benefits of Deferring Taxes By Contributing To Your 401(k) & 457 Plans



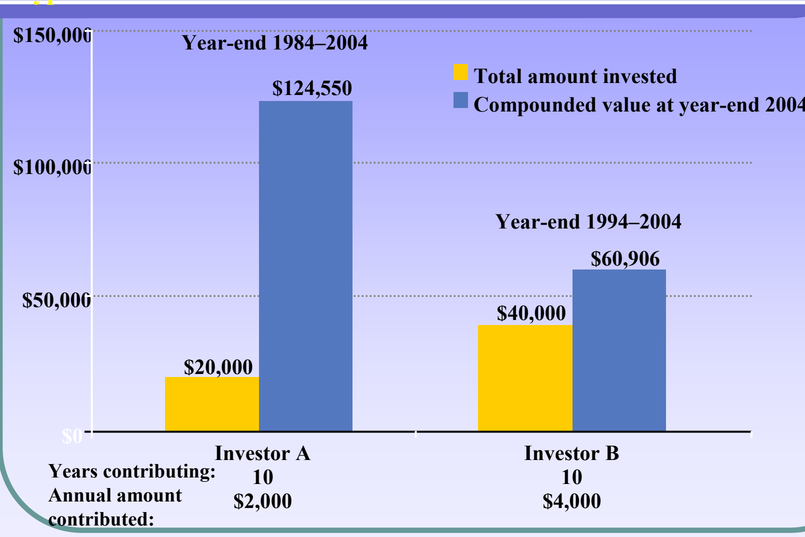
Hypothetical value of $10,000 invested in large company stocks. This hypothetical example is for an investor in the 25% bracket using the 2004 tax code. Assumes an 8% annual total return. Rates of return are used for illustrative purposes only and should not be construed as a guarantee. Actual account values and earnings may decrease or increase depending on a number of factors. Please read all fund materials prior to investing and consult with your investment advisor. The above illustration does not reflect the different fees and charges associated with investing. If these charges were taken into account, they would reduce the level of performance.

Tax Implications At Withdrawal

- Deferred Compensation (457, 401k & IRA)
  - A. Taxed as ordinary income
  - B. No capital gains taxes owed
- Outside investments (brokerage, personal bond & stock holdings)
  - A. Capital gains tax due - difference between sale price and cost basis (purchase price)

Power of Compounding

Hypothetical investment in stocks



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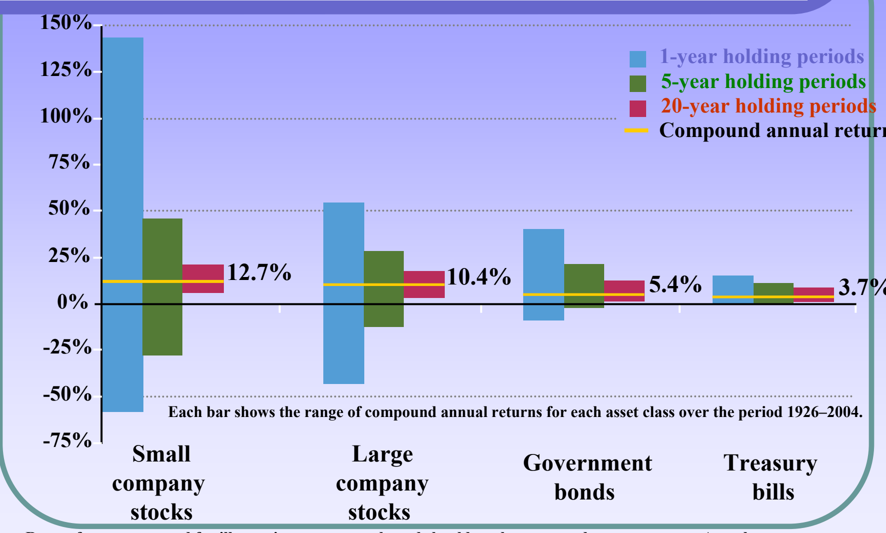
Reduction of risk over time

1926–2004



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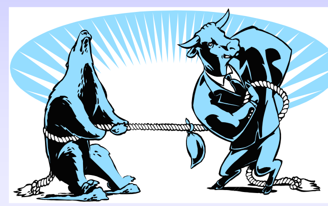
Bull Market - Upward Cycle

- Strong Economy
- Low Inflation/Low Interest Rates
- Positive Corporate Earnings
- Strong Cash Flows
- Low Unemployment

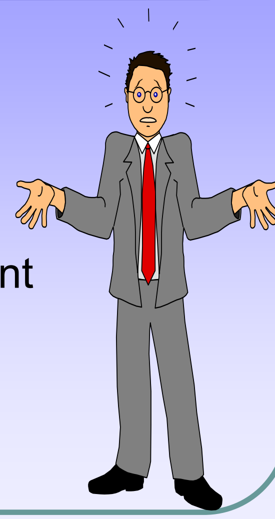


Bear Market - Downward Cycle

- Slowing rate of earnings growth
- High Inflation/High Interest rates
- Increased consumer debt
- Climbing unemployment

Know Your Investment Options

- Tier 1 Index Funds
- Tier 2 Mutual Funds
- Tier 3 Self Managed Account



Asset class winners and losers

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Highest Return	30 day T-bills	Small stocks		Internat'l stocks		Large stocks				Small stocks	LT gov't bonds	Small stocks	LT gov't bonds	Small stocks	Internat'l stocks
	LT gov't bonds	Large stocks	LT gov't bonds	Small stocks	30 day T-bills	Small stocks			Internat'l stocks		30 day T-bills			Internat'l stocks	Small stocks
	Large stocks	LT gov't bonds	Large stocks	LT gov't bonds	Small stocks	LT gov't bonds	Internat'l stocks	LT gov't bonds		Large stocks	Small stocks	LT gov't bonds	Small stocks	Large stocks	
	Small stocks	Internat'l stocks	30 day T-bills	Large stocks		Internat'l stocks	30 day T-bills				Large stocks		Internat'l stocks	LT gov't bonds	
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Tier I: Investment Options

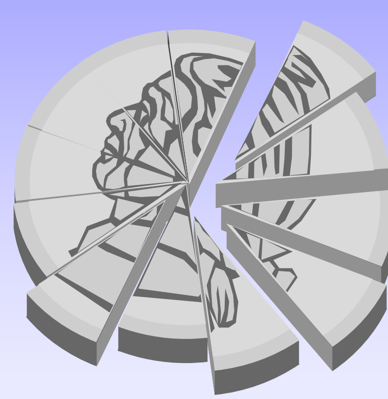
- Stable Value Funds
  - SSgA Stable Value Fund
  - SSgA Yield Enhanced Short-Term Investment Fund (STIF)
- Index Funds
  - SSgA Bond Market Index Fund
  - SSgA S&P 500 Index Fund
  - SSgA S&P MidCap Index Fund
  - SSgA Russell 2000 Index Fund
- Asset Allocation Funds
  - Conservative
  - Moderate
  - Aggressive

Tier I Asset Allocation Funds

Conservative

Moderate

Aggressive



Tier II: Actively Managed Mutual Funds

- Bond Fund
  - Western Asset Core Bond Fund
- Balanced Fund
  - MFS Total Return Fund (Class A)
- Large Company Stock Funds
  - Dodge & Cox Stock Fund
  - Smith Barney Large Cap Growth Fund (Class Y)

Tier II: Continued

- **Mid-sized Company Stock Funds**
  - Lord Abbett Mid Cap Value Fund (Class A)
  - Artisan Mid Cap Fund
- **Small Company Stock Funds**
  - STI Classic Small Cap Value Equity Fund
  - Columbia Acorn Fund (Class Z)
- **International Stock Funds**
  - Templeton Foreign Fund (ClassA)
  - American Funds EuroPacific Growth Fund
  - SSgA Emerging Markets Fund

Tier III: The Self Managed Account (SMA)

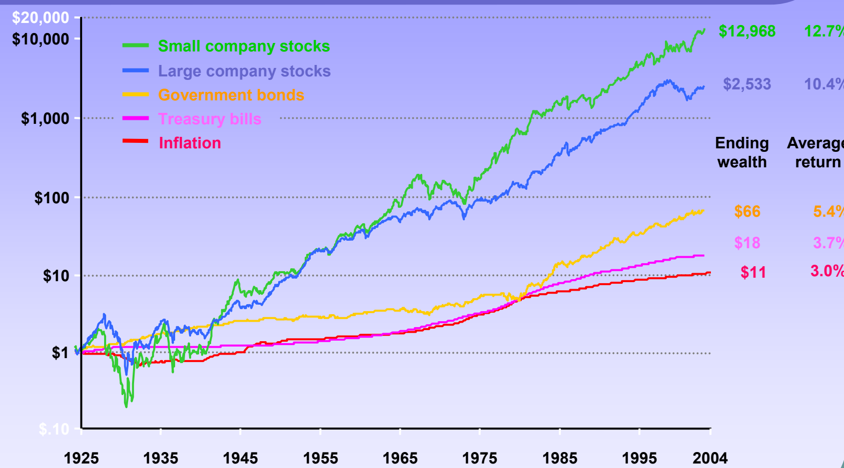
- Window to thousands of additional mutual funds
- Individual stocks and bonds
- Added investment flexibility
- Socially conscious investing (tobacco free funds offered)
- Additional fees apply
  - Maintenance fee of $50 annually
  - Transaction fees and loads may apply
  - Over 300 funds with no transaction fee & no load

When to Revisit the Asset Allocation Policy

- Changes in lifestyle
  - Children
  - Marriage/Divorce
  - Death
- Changes in income
  - Promotion/career change/unemployment
  - Inheritance
- Changes in investment objectives
  - Time to retirement
  - Real Estate purchases
  - Education expenses

Stocks, Bonds, Bills, and Inflation

Year-end 1925–2004



Hypothetical value of $1 invested at year-end 1925. Assumes reinvestment of income and no transaction costs or taxes.

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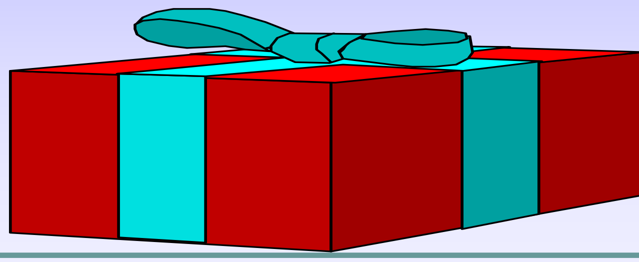
Your Estate - It May Be Worth More Than You Think!

- What's in it?
  - All assets owned in your name
  - Life insurance
  - Money you are owed
  - All jointly held property
  - A business
  - Anything not in your name but which you have control over
- What's not part of your estate?
  - Any asset you have given away over which you have no control and receive no benefit

How Much Can I Give Away Tax Free Every Year?

- Annual Gift Exclusion
  - $11,000 per year per recipient
  - Recipient must have immediate use and enjoyment



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Unified Credit - What Is It?

Each person can pass $2,000,000 worth of assets onto their heirs estate TAX FREE. Assets must be in your name only, not jointly held.

2006 - 2008: $2,000,000
2009: $3,500,000

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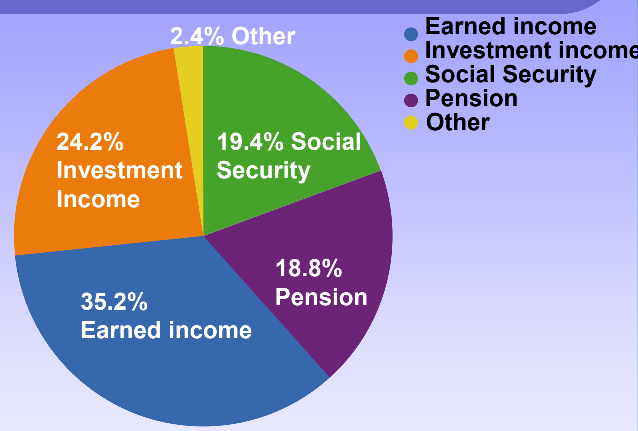
Estate Tax Brackets

Year	Unified Credit	Tax Rate
2005	1.5 Million	47%
2006	2 Million	46%
2007	2 Million	45%
2008	2 Million	45%
2009	3.5 Million	45%

Where Will Your Retirement Dollars Come From?



Pension includes all defined benefit and defined contribution plans. Estimates are not guaranteed.

What Does the CitiStreet Advisor Service Provide Me With?

- Objective Investment Advice
- Current assessment of risks, goals and objectives
- Advice on funds outside State of Michigan 401(k)/457 Plans
- Advice on how much to save and how to invest
- Preparation of a personalized investment strategy and reports
- Ongoing support from now until retirement
- Unlimited access to Advice

Through its partnership with CitiStreet, the State of Michigan has agreed to provide access to the CitiStreet Advisor Service, powered by Financial Engines. The State reserves the right to modify or discontinue this arrangement at any time.

How Do I Access the Advisor Service Online?

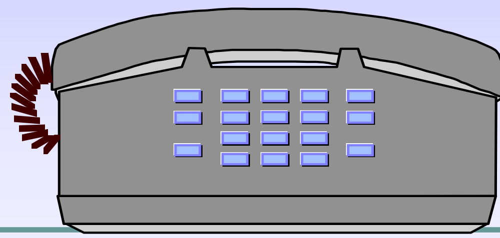
1. Log on @ http://stateofmi.csplans.com using your Social Security# and PIN

2. Click on **Investment Advice** link

3. Review the Investment Services Agreement, then click **I Accept**

How Do I Access the Advisor Service On the Phone?

- Call 1-800-748-6128
- Advisors available Monday – Friday, 9:00 a.m. – 5:00 p.m.



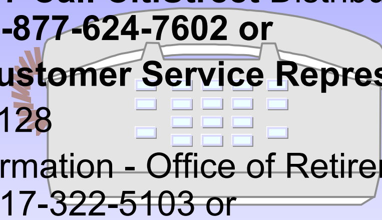
How Much Does it Cost?

- **Advice Delivered Online:**
  - Active State of Michigan Employee: Free
  - Former State of Michigan Employee: 1.67 bps*
- **Advice Delivered Over the Phone:**
  - Active State of Michigan Employee: 2.5* bps
  - Former State of Michigan Employee: additional 2.5* bps above online charge
- When active state employees terminate their employment, they will continue to receive their online advisor service for 90 days at no cost. After 90 days the former employee fees apply.

* Example of Basis Points, 1.67 bps charge on an account balance of $10,000 would be $1.67 per month, which is 0.000167 multiplied by $10,000

Who To Call With Questions About Your Retirement Dollars

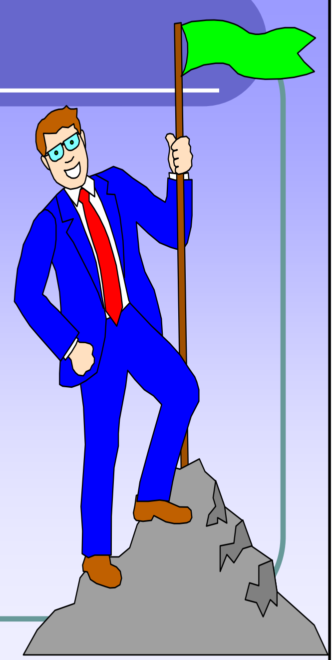
- Social Security 1-800-772-1213 ask for the SSA-7004 form
- **401k and 457 Call CitiStreet** Distribution Specialists **1-877-624-7602 or**
- **CitiStreet Customer Service Representatives** 1-800-748-6128



- Pension Information - Office of Retirement Services 1-517-322-5103 or 1-800-381-5111 www.michigan.gov/ors
- Web site for Deferred Compensation: http://stateofmi.csplans.com

Take Action

- Invest
  - As Much as You Can
  - As Soon as You Can
  - As Long as You Can



Important Notes

- Today's workshop was designed to:
  - Provide you with fundamental information on investment opportunities
  - Objectively highlight your fund options
  - Outline other sources of information for your decisions
- This presentation does not constitute legal, investment or financial advice of any kind
  - Please consult your own advisors for such advice
- Any investment performance illustrated in this presentation details historical returns and does not guarantee future investment returns of the investments reviewed

12/21/05